

VZCZCXRO2530  
RR RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR  
DE RUEHVJ #1649/01 2971239  
ZNY CCCCC ZZH  
R 231239Z OCT 08  
FM AMEMBASSY SARAJEVO  
TO RUEHC/SECSTATE WASHDC 9143  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE  
RHEHNSC/NSC WASHDC  
RUEKJCS/JCS WASHINGTON DC  
RUEAIIA/CIA WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 SARAJEVO 001649

SIPDIS

STATE PASS TO EUR/SCE HYLAND, FOOKS, STINCHCOMB

E.O. 12958: DECL: 10/09/2023  
TAGS: [ECON](#) [EINV](#) [ENRG](#) [PREL](#) [BK](#)  
SUBJECT: BOSNIA: NATURAL GAS PIPELINE PROJECTS RUNNING ON  
FUMES

REF: A. 06 SARAJEVO 2312  
[1](#)B. 06 SARAJEVO 2043

SARAJEVO 00001649 001.2 OF 002

Classified By: DCM Judith Cefkin for reason 1.4 d

[1](#)1. (C) Summary: After years of discussions (Ref A), there is still no new natural gas pipeline in BiH to provide consumers an alternative to "mazut," a heavy, polluting fuel oil, or coal or wood, which are all used for heating in the winter. The only existing pipeline in the country services Sarajevo customers, the Zenica steel mill and the Birac Zvornik aluminum plant. The EBRD-supported pipeline, which would run north-south from Bosanski Brod through Banja Luka into Zenica, has been blocked by RS officials who want to develop a pipeline that would run through the RS only roughly along the Sava river. Slavija International won a RS Government concession in 2002 to build the (RS-only) &Sava8 pipeline. Despite winning this concession, pipeline construction still has not begun as Slavija has been unable to find a guaranteed supply of natural gas. Slavija President Njezic, however, told us in September that he has signed an agreement with a Hungarian company that would supply the necessary natural gas to begin construction. Both natural gas pipelines have fallen prey to the constant squabbles between the RS and the Federation, to the detriment of all BiH consumers who could benefit from a cleaner heating fuel. Based on current information, it appears that the Sava pipeline could get built over the north-south pipeline, leaving Federation consumers in the cold. End Summary

EBRD &BIH8 PIPELINE GOES NOWHERE WITHOUT DODIK,S SUPPORT  
-----

[1](#)2. (SBU) The European Bank for Reconstruction and Development (EBRD) supported a north-south pipeline that would carry natural gas from Italy and Croatia to Banja Luka and the petroleum derivatives facilities at Modrica, on its way to Zenica (Ref A). This project, according to EBRD Country Director Giulio Moreno, would double the market share of natural gas in the consumer market, reducing the need for significant volumes of mazut, a heavy, low quality fuel oil, as well as coal and wood, which contribute to the severe pollution in most of BiH,s city centers during the winter months. INA, the Croatian majority state-owned oil and gas company, is very interested in the plan to build the pipeline as it would also have the potential to connect coastal towns of Split and Dubrovnik to natural gas supplies. (Note: There is currently one natural gas pipeline from Serbia that services only Sarajevo consumers, the Zenica steel mill and the Birac Zvornik aluminum plant in the RS. End Note)(Ref B)

13. (C) Radomir Njezic, President of Slavija International, provided us with an update on the east-west Sava pipeline, a 500 km pipeline through the RS following roughly along the Sava river, for which Slavija won a concession from the RS Government in 2002. The pipeline route runs through the RS from Zvornik, at the Serbian border, to Novi Grad, at the Croatian border. Njezic explained why the pipeline has not yet been built, saying that Russia's first condition for supplying natural gas was assistance in clearing BiH's \$100 mln wartime debt for natural gas. (Ref A) Gazprom then announced that it still cannot guarantee natural gas for the Sava pipeline. "I'm being blackmailed by the Russians," Njezic declared. Gazprom's explanation was that there was a higher demand in neighboring countries with existing pipelines, where the risk is lower and the return higher. Njezic explained that he needs a guaranteed supply of 450 million cubic meters of natural gas to be able to fund pipeline construction. To solve his problems with the Russians, Njezic recently signed an agreement with a Hungarian company to supply the necessary gas for the pipeline and feels confident this will be the guaranteed gas supply he needs to move forward with construction.

14. (SBU) Despite receiving initial EBRD approvals, the route of the north-south pipeline coincides with the Sava pipeline concession in the RS between Banja Luka to Bijelina, leading RS Government officials to withhold their support of the EBRD pipeline. RS officials believe the pipeline "cherry-picks" the major population centers in the RS (Banja Luka), but bypasses the rest of the entity. Therefore, they are only supporting the Sava pipeline, over the larger north-south (BiH) option.

SARAJEVO 00001649 002.2 OF 002

COMMENT

15. (C) Although not surprising, natural gas development seems to be another victim of the ethnic competition in BiH. Once again, Bosnian politicians prefer to simply fight over potential, future spoils then try to come to an agreement. Although the EBRD supports the north-south pipeline project it is not clear that the project has strong enough backing from other key players who could wrestle with the RS and PM Dodik to obtain their necessary approval. If Njezic truly has found his guaranteed gas supply and construction can begin on the Sava pipeline project, this would mean natural gas supplies for most of the RS, with a significant part of the Federation left out in the cold.

ENGLISH